Economic Trends

Alberta economy weathering downturn

Low oil prices continue to have an impact on Alberta's economy. Export values have fallen, the labour market has cooled, and households have scaled back on spending. However, exports volumes continue to expand on growing production, and the construction industry has remained resilient, with gains in both the residential and non residential sectors to start the year. This month's inFocus looks at the contribution of households to the US economy.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	March	2,300	+1.9%
Unemployment Rate	March	5.5%	+0.4 p.p.
CPI Inflation (unadjusted)	March	0.1%	-4.0 p.p.
Retail Sales	February	$6.4 B	1.4%
Housing Starts (annualized)	March	50,500	+26.7%
Rigs Drilling (unadjusted)	April	51	-64.2%
Manufacturing Shipments	February	$6.0 B	-8.5%
Exports (unadjusted)	February	$8.1 B	-13.0%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Households slow their purchases

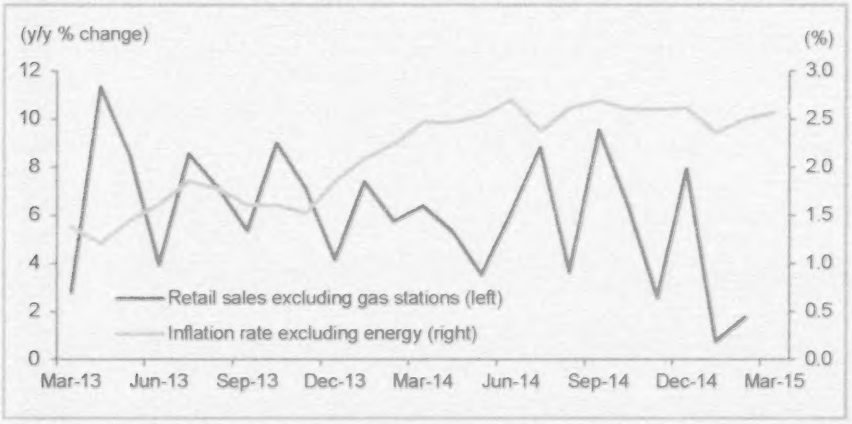
Households continued to pull back on spending in February. Retail sales fell for the second straight month, and were down 1.9% year-to-date (YTD), after rising 7.5% in 2014. The dramatic slowdown was largely precipitated by the decline in gasoline prices, which lowered sales at gasoline stations. Removing the effects of lower gasoline sales, retail spending growth remained positive, but has also slowed sharply in recent months. Sales excluding gasoline stations have increased 1.2% YTD, slower than the rate of non-energy consumer price inflation (Chart 1).

Energy prices lower inflation

Energy prices fell 20% y/y in the first quarter of 2015, pushing down consumer prices and causing a slight deflation in March, with headline inflation at -0.08%. Consumer prices excluding energy, however, increased 2.6% in March. Food, non-energy shelter costs, and household operations and furnishings kept non-energy inflation elevated.

Chart 1: Alberta retail sales slow

Growth in retail sales excluding gas stations & CPI inflation excluding energy



Sources: Statistics Canada

Housing starts soar, while resale market softens

The resale and new housing markets continue to diverge. Housing starts in the province reached almost 50,500 (annualized) in March, capping off strong first quarter growth of over 21% y/y. Starts were led by multifamily housing, which grew almost 50% over this period. In contrast, despite the pickup in sales activity in March, the resale market has weakened over the last year. The sales-to-new listings ratio was 52% in March, about 15 percentage points lower than the same period last year. Similarly, the average resale price in Alberta has fallen 2.8% YTD. Edmonton has carried the growth in the housing market so far this year, posting two months of record high starts and a 3.9% YTD increase in resale prices, while Calgary's growth has faltered.

Labour market cools

After a strong 2014, Alberta's labour market has started 2015 on a softer note. Employment levels remain little changed from December 2014. The number of vacant jobs has dwindled since October 2014, falling 8.8% y/y in January. Similarly, the job vacancy rate, or the proportion of jobs left unfilled,

declined to a low not seen since March 2011. The unemployment rate increased to 5.5% in March, up from an average of 4.7% in 2014.

Alberta Business Sector

Solid non-residential investment

Alberta investment in non-residential construction continued to expand, increasing 4.6% y/y in the first quarter of 2015. Investment in institutional and government structures remained strong, as construction got underway on a number of new schools in the province. Commercial construction investment, however, showed signs of leveling off in the first quarter (Chart 2). Although commercial activity was 3.1% higher year-over-year, it decreased for the second quarter in a row. Building permits suggest that gains in commercial construction may begin to slow, while institutional permits point to continued growth.

Oil prices creep higher, remain low

Oil prices advanced in April, as WTI averaged around US$54/bbl for the month, over 13% higher than March. Prices rose on concerns about the conflict in Yemen, a large oil transportation hub, as well as the ongoing conflict in Iraq. The build up of inventories in the US is showing signs of slowing. In addition, improving demand and lower rig counts point to a potential reduction in the supply overhang in North America. Heavy producers in Alberta have also received a price uplift, with the WTI-WCS spread narrowing to less than $12/bbl in April. Improved market access to the US Gulf Coast and higher demand due to refineries increasing operations following maintenance and the upcoming summer driving season have provided support to WCS prices.

Growing production supports export volumes

Exports from Alberta continued to be hit by lower oil prices in February. They were down 13% y/y, although the volume of crude shipped was up 23% y/y. Export volumes were bolstered by increasing crude production. In January, production reached 3.1 million barrels per day, with bitumen production jumping almost 20% y/y. Outside the energy sector, exports expanded by 6.3% y/y.

Shipments decline on lower prices

Manufacturing shipments followed the same trend as exports. Overall, they were down 8.5% y/y in February, as petroleum and coal shipments fell over 30% on lower prices. Excluding energy products, however, shipments were up almost 3%. Although petroleum and coal manufacturing shipments were down again in February, refiners benefited from cheaper feedstock in the last few months. Refined product prices have not fallen at the same pace as oil prices. As a result, margins in 2015 have increased for both gasoline in recent months.

Outside Alberta

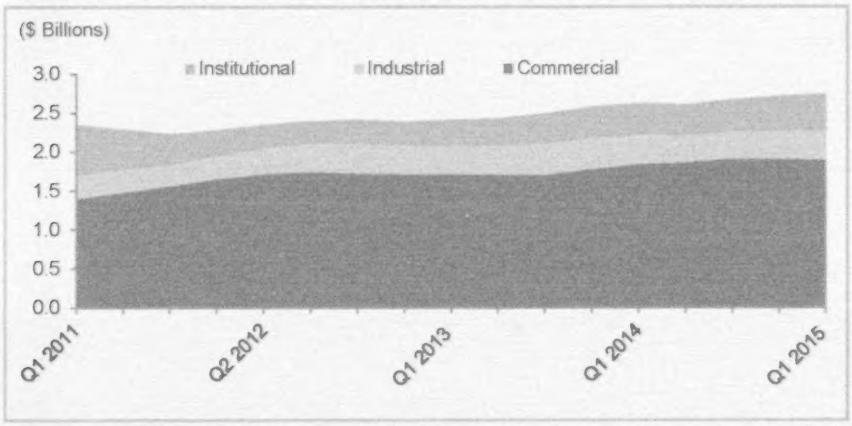
Bank of Canada estimates impact of lower oil prices

In the latest Monetary Policy Report, the Bank of Canada (BOC) acknowledged that the oil price plunge hit Canada's economy "faster than initially expected". The BOC illustrated that a decline in the price of world price of oil from $US110/bbl to $US60/bbl would reduce Canada's GDP growth by 1 percentage point and lower the terms of trade by 9%. Canada is not expected to post any growth in the first quarter of this year due to lower oil prices. The BOC kept its overnight interest rate at 0.75%.

Moderate and diverging growth

The International Monetary Fund (IMF) kept its outlook for global economic growth in 2015 at 3.5%, while raising the forecast for 2016 by 0.1 percentage points to 3.8%. The 2015 US growth forecast was lowered by 0.5 percentage points to 3.1%, while the Eurozone forecast was raised to 1.5%. Global economic trends have largely unfolded in line with earlier assessments. Important trends include the decline in commodity prices, diverging growth prospects, stubbornly low inflation, and the need for different monetary and fiscal policies. The IMF cautioned that future economic growth could moderate as growth in advanced economies remains modest and emerging economies struggle to maintain the pace of growth that was observed in the previous decade.

Chart 2: Non-residential construction remains strong
Alberta Nominal Non-Residential Investment



Sources: Statistics Canada

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inFocus

US Consumers at the Helm

American households have good reason to be optimistic. The outlook for the US economy has improved considerably over the past year, and real GDP growth is expected to improve to 2.9% in 2015. US consumers will be a strong source for growth after mainly sitting on the sidelines since the recession.

Strong consumers support growth

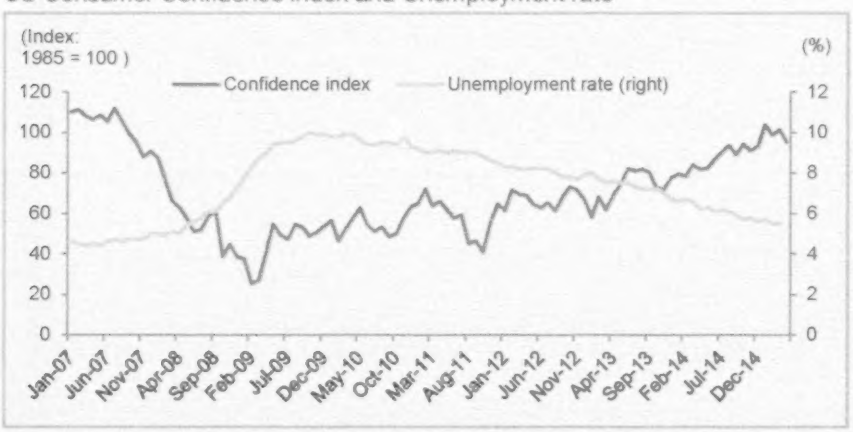
The US economy is primarily driven by consumer spending, which has accounted for around 67% of nominal GDP since late 2001. As the Great Recession unfolded, a weak labour market, elevated debt and limited access to credit caused households to cutback on their expenditures. Since then, growth in household consumption has been sluggish. US consumers are now unwinding several years of pent-up demand as the labour market improves and consumers feel more confident. The most recent data indicates that the average contribution to GDP growth from consumption has increased from 33% in 2012 up to 48% in 2014. During the fourth quarter of 2014, consumption contributed an impressive 74% of the period's GDP growth.

The outlook for US households has been gradually, yet steadily, improving. US consumers are benefiting from a mix of factors: improved labour market prospects, lower energy prices, rising equity prices, growing household wealth, and lower debt ratios as a result of delevereging since the recession. Each of these has contributed to healthier household balance sheets, more confident consumers and increased consumption spending in the US economy.

Spending and confidence on the rise

US consumer spending has accelerated from 1.8% in 2012 to 2.9% in 2014. As of February 2015, consumer spending was up by 3% year-over-year (y/y). Alongside the increase in spending, US consumer confidence has been trending upwards since 2009. Since 2011, the level of consumer confidence has doubled (Chart 1).

Chart 1: US consumers feeling upbeat as labour market improves
US Consumer Confidence Index and Unemployment rate



Source: The Conference Board and US Bureau of Labour Statistics

Labour market recovery

Labour markets are a key driver of US consumer spending. The labour market was hit hard during the Great Recession. While the recovery has been protracted, recent developments suggest that the employment situation has improved. Employment growth over the past year has averaged 261,000 jobs per month, and the unemployment rate fell to 5.5% in February, its lowest level since May 2008.

Although job growth has picked up, there is still room for improvement in the labour market. Stubbornly high involuntary part time employment and low labour force participation suggest that some resources remain underutilized, which remains a concern for the Federal Reserve. Despite residual weakness, labor market conditions notably have improved.

Income and wealth increasing

The growth in US consumer spending is also being supported by rising incomes (Chart 2). Personal disposable income has increased by a monthly average rate of 2.7% (y/y) since January 2014. As of February 2015, personal disposable income was up by 4% (y/y). While growth in the average wage rate has remained fairly flat over the past few years, compensation from wages from salaries increased by 2.8% in 2013 before accelerating to 4.5% in 2014. In the last quarter of 2014, growth had picked up to 5.1% (y/y).

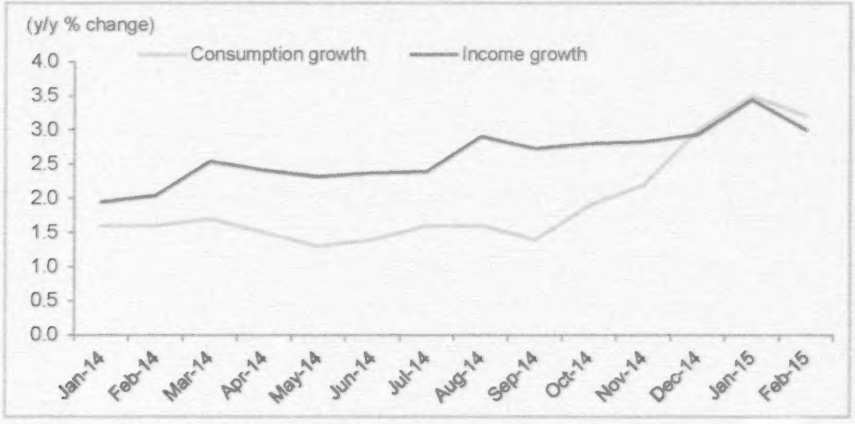
In addition to income, consumption is being driven by personal wealth. The aggregate wealth of US households has consistently risen over the past six

years, offsetting the losses incurred during the Great Recession and rising further. Between 2009 and the end of 2014, US household wealth grew by 42.3%, from USD$58.2 trillion up to USD$82.9 trillion. Strong stock market returns have also benefited household wealth. Since bottoming out in 2009, major US equity indicies like the S&P 500, NASDAQ and NYSE Composite have more than doubled, surpassing pre-2008/09 crash levels.

Deleveraging well underway

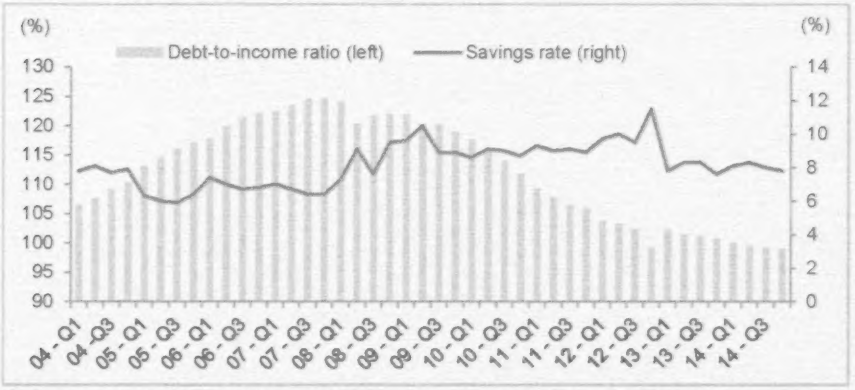
In recent years, US households have been saving and paying off debt. Between 2005 and 2007, net personal savings averaged 6.6% of disposable income. In the aftermath of the 2007 financial crisis, the average savings rate rose substantially, jumping to 9.5% through 2009 and peaking at 11.5% in late-2012. The savings rate has since receded to 8.7%, but remains 2.8 percentage points above the pre-recession low (at 5.9% in mid-2005). Between 2008 and 2011, total debt for US households declined for 13 consecutive quarters, falling from USD$14 trillion to USD$13 trillion. As a result, the debt-to-income ratio for US household declined to its lowest level in over ten years (Chart 3). Debt started to pick up in late-2011, but at a slower pace, and reached USD$13.5 billion by the end of 2014. At present, households are spending less of their income on debt repayment, and historically low interest rates have reduced debt servicing costs. Deleveraging has improved household balance sheets; less income spent on debt repayment and servicing means that US households now have more income for consumption.

Chart 2: Income and spending growth pickup
Year-over-Year Change in Real Personal Disposable Income and Consumption



Source: US Bureau of Economic Analysis

Chart 3: Household deleveraging enables spending
US Debt-to-Income Ratio and Savings Rate



Source: US Bureau of Economic Analysis and Federal Reserve Board

Savings from declining energy prices

Given that the US is a net importer of oil, lower oil prices should benefit US economy overall by lowering energy expenses and improving the "terms-of-trade" via lower energy import costs. Lower oil prices should bolster consumer spending by allowing households to save on gasoline and shift expenditures towards other consumer goods and services. To that effect, the 50% drop in oil prices since June 2014 should leave consumers feeling wealthier with more disposable income to expend. In addition, lower fuel costs (e.g. for transportation) will enable businesses to potentially pass a portion of the savings to consumers via lower retail prices (e.g. airfares). These beneficial effects should help offset the slowdown in oil drilling activity and related employment.

The bottom line

Despite obstacles dotting the global economic landscape, US economic performance has stood out and is poised to continue improving through the rest of 2015. Given the growth in employment, salaries, wages and household wealth, alongside bouyant stock markets, declining energy prices and reduced household debt, US consumers have good reason to be confident.

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